

DEPARTMENT OF NATURAL RESOURCES

OIL AND GAS

LEASING

PROGRAM

INTRODUCTION

The management of state-owned land is a complex process that requires gathering information for decision making, incorporating management concerns, taking advantage of opportunities, protecting resources, allowing for change, gathering public and agency input, meeting legal and trust obligations and achieving proper land and resource use.

To make the oil and leasing process effective, the department is committed to:

1. Involve the public, interested agencies and industry in planning and decision making.
2. Use professionals in the fields of oil and gas leasing, exploration and development; fisheries; wildlife management; and other resource areas to assist in the oil and gas leasing process.

This program is available to the public, other agencies and industry. Future changes will be submitted for review and comment in accordance with SEPA.

Professionals within the department, other agencies and the private sector will be used as necessary to ensure proper controls are used to obtain maximum returns to the state, promote the oil and gas resources of the state and maintain adequate safeguards to protect the environment.

The Oil and Gas Leasing Program will set the general guidelines and controls for oil and gas leasing and exploration of department-managed lands. Activities permitted under normal leasing and those restricted or prohibited under restricted leasing will be prescribed.

Initial planning and environmental review will require consideration of the following elements:

Natural Resources

Land (acreage)
Soils
Geology
Water (surface and subsurface)
Flora
Fauna
Wildlife habitat
Cultural resources

Conditions

Land ownership distribution
Soil Stability
Aquifers
Oil and gas leasing on adjacent lands
Land use plans
Topography
Climate
Existing land uses
Statutes, regulations and zoning

The department is developing a system that will receive and catalog data needed for the Oil and Gas Leasing Program. Due to budget and personnel limitations a comprehensive up-to-date inventory of the elements is not currently available. The department will rely on field inspection and information

from other agencies and the public until the Geographic Multiple Use Analysis and Planning System (GEOMAPS) is operational. GEOMAPS is described more fully in the department's Forest Land Management Program (DNR, 1983a). New information, as it becomes available, will be added to the system.

REVENUES

Revenues from oil and gas leasing consist of application fees, rental fees and bonus bids, and may include royalties. Oil and gas leases are issued through public auction to the person submitting the highest cash bonus bid.

The Board of Natural Resources establishes rental fees and royalties. The minimum annual rental is \$1.25 per acre. The minimum royalty is \$5 per acre per year or 12½ percent of gross production whichever is greater (RCW 79.14.070). The department distributes the revenues received to the appropriate trust, fund or county as required by statute.

Income from oil and gas leasing varies annually according to the level of interest of the oil and gas industry and speculators. No reliable projections can be made for financial planning purposes due to the variability of interest in leasing. For illustration, during the period of 1974

to 1982 annual income from rental fees ranged from \$1,548 to \$632,258. Bonus bid revenues ranged from zero to \$3,827,100. Revenue projections may be more feasible if commercial production of oil and gas is established.

RELATIONSHIP OF OIL AND GAS REVENUES TO OTHER TRUST LAND REVENUE SOURCES

If oil and gas activities should occur, revenues from forest production, agriculture and grazing, etc. may be temporarily reduced. The temporary loss of revenues from those sources may be offset by increased rental fees, bonus bids and royalties.

Unless the department elects to directly dispose of the forest products, forest products on rights of way over public lands and the land necessary for the drilling operation shall be appraised by the department and paid for by the lessee. (RCW 79.14.140 and WAC 332-12-430.)

POLICIES

All procedures required by law are department "policy". Laws applicable to the Oil and Gas Leasing Program are too numerous to state as individual policies, however Revised Code of Washington (RCW) and Washington Administrative Code (WAC) reference numbers are given throughout this program.

LANDS AVAILABLE FOR LEASE

All department-managed lands are available for oil and gas leasing. However, some lands are unavailable because of existing laws, regulations or by order of the Commissioner of Public Lands. No applications will be accepted on such lands and the applicant will be informed of the determination early in the administrative process.

Some lands nominated by the applicant may already be under surface lease for activities such as grazing, forest production, agriculture and residential use. Oil and gas activities could pose significant adverse environmental impacts to the surface lessee's operation. Lease applications will be accepted only for those tracts where it is anticipated that no significant adverse impacts will occur.

The SEPA process and the department's Sensitive Area Planning process may identify other lands that will be withheld from leasing. This decision will be based on site-specific conditions.

LANDS AVAILABLE FOR CONDITIONAL LEASE

The State Owns the Surface and Mineral Rights but the Surface Rights are Leased for Other Purposes

The leases may involve parks, wildlife refuges, municipal watersheds, department-managed aquatic lands, cities, towns and residential areas. These lands may be leased for oil and gas purposes but entry, seismic exploration and drilling may be prohibited. Directional drilling from adjoining lands may be permitted subject to the Oil and Gas Conservation Act (Chapter 78.52 RCW and WAC 344-12-078) and other applicable laws and regulations. The determination to permit any activity will require completion of an Environmental Checklist and, if necessary, submission of mitigating measures acceptable to the department and the surface user.

The State Owns the Mineral Rights but has Relinquished the Surface Rights

Lands on which the state owns the mineral rights but does not own the surface rights may be leased for oil and gas purposes but entry, seismic exploration or drilling are prohibited unless the lessee (prior to commencement of any operation) secures consent or a waiver from the surface owner or provides full payment for damages or provides surety or institutes action in Superior Court of the county in which the lands are situated (RCW 79.14.040). Permits and SEPA compliance are required for seismic exploration and drilling (Chapter 78.52 RCW and Chapter 344-12 WAC). Directional drilling from adjoining lands may be permitted (Chapter 78.52 RCW and WAC 344-12-078).

LANDS WITHHELD FROM LEASING

The Commissioner of Public Lands may withhold any tract or tracts from leasing for oil, gas or other

hydrocarbons if, in his ^{other} judgment, it would be in the best interest of the state (RCW 79.14.180). Leasing will also be prohibited where prohibited by law.

LEASING OF AQUATIC LANDS

The department is currently withholding department-managed marine and estuarine aquatic lands from lease. These include lands under the Pacific Ocean out to three miles, Puget Sound, the Strait of Juan de Fuca, the Strait of Georgia, Grays Harbor, Willapa Bay, and the Columbia River upstream to Puget Island. A future decision to allow leasing or exploratory drilling will only be made after completion of an Environmental Impact Statement and a determination by the Commissioner of Public Lands that the activity would be in the public interest. Surface drilling is prohibited by law in and within 1,000 feet of Puget Sound and the Strait of Juan de Fuca (RCW 90.58.160).

The department will permit oil and gas leasing of department-managed lands under fresh water. Surface drilling is prohibited on these lands. Directional drilling is permitted beyond 200 feet of the ordinary high water mark and as otherwise permitted by law.

WATER AND WETLAND AREAS

Oil and gas seismic surveys, drilling, development and production will be prohibited within 200 feet of any Type 1, 2, 3 or 4 waters and wetlands of the state (WAC 222-16-020, -030 and WAC 344-12-040).

DEPARTMENT-INITIATED OIL AND GAS LEASE APPLICATIONS

Any person may submit an application to lease state-owned lands for oil and gas purposes (WAC 332-12-240). The depart-

ment may initiate oil and gas lease applications in the name of the state when it appears the state may benefit.

NOTIFICATION OF OIL AND GAS LEASING

Notification of impending oil and gas leasing will be provided by department to surface owners of record upon acceptance of oil and gas lease applications in the following situations:

- Severed mineral rights (surface rights have been relinquished by the state) and
- Surface leased by other public agencies.

PLAN OF OPERATIONS

A Plan of Operations describing intended activities and measures to mitigate environmental impacts must be submitted to and approved by the department prior to entry and initiation of surface operations. The Plan of Operations must be approved before any permits will be issued.

The operator must conduct exploration activities according to the approved Plan of Operations.

RIGHT OF ENTRY

An operator must obtain a Right of Entry permit from the appropriate department Area office to conduct surveys on department-managed land. The operator must also contact the appropriate department Area office prior to entry upon the land.

A Right of Entry permit is not required to conduct surveys on department-managed land under an oil and gas lease, provided the lessee of such land is contracting for or conducting the survey.

SEISMIC EXPLORATION PERMITS

Shot-hole seismic exploration requires a permit issued by the Oil and Gas Conservation Committee (WAC 344-12-050).

RESOURCE PROTECTION

Avoid impacts on plant and animal species considered endangered in Washington. Within trust management obligations avoid impacts on species considered threatened, and consider avoiding or lessening impacts on species considered sensitive.

Preserve plant and animal diversity by designating certain parcels of state land under the Registry Program and in Natural Area Preserves.

Administer the Oil and Gas Leasing Program in a manner that identifies and protects cultural resources.

ROAD CONSTRUCTION

All roads constructed for conducting examinations, drilling, development and production activities on premises leased for oil and gas purposes shall meet or exceed road construction and maintenance standards as specified by the Forest Practices Board (Chapter 222-24 WAC).

PRELIMINARY INVESTIGATIONS

Preliminary investigations on department-managed lands will be allowed with a Right of Entry permit. Site-specific conditions may dictate certain restrictions. Some preliminary investigations will be prohibited on water and wetland areas.

SEISMIC EXPLORATION

Normally, all seismic exploration methods will be allowed on department-managed lands. However, site-specific conditions may preclude the use of certain methods entirely or limit or modify their use.

STRATIGRAPHIC AND EXPLORATORY DRILLING

Oil and gas stratigraphic and exploratory drilling will be allowed on department-managed lands under the following conditions:

- A valid lease is required and
- The lessee must submit a Plan of Operations for approval by the Oil and Gas Conservation Committee and the department's Lands Division prior to commencement of drilling and obtain a drilling permit. (WAC 332-12-360 and 344-12-050.)

RESOURCE PROTECTION

SENSITIVE AREA PLANNING

Department-managed lands exhibit a diversity of soils, slope, climate, geologic factors and site conditions. Problem or sensitive areas will be identified to assist development of adequate site-specific permit and lease terms and conditions.

Sensitive areas are locations where disruptions of natural processes or natural coastal resources may cause an unacceptable loss. To specifically identify such areas and develop measures to reduce or eliminate concerns, an organized planning process is necessary.

Sensitive area planning is that portion of the oil and gas leasing process that seeks to:

- Identify sensitive areas,
- Estimate the degree of sensitivity, and
- Develop timely management strategies to minimize conflicts.

Selected sensitive area factors are listed for each SEPA environmental element (Table 3). Additional factors may be added during permit or lease processing. Oil and gas leasing activities may result in a sensitivity in some locations while they may not in many others. Table 3 provides examples of situations which may cause a specific site to be a sensitive area when a certain activity is considered for that location.

Social/political concerns are an important aspect of sensitive area planning

because a considerable number of potential resource conflicts may not be concerns about environmental impacts but rather disagreements about land use or misunderstandings about a project.

Although this discussion emphasizes individual lease area analysis, the department will, in many cases, have already identified a larger general area as possibly sensitive. A designation may be developed because an area has been recognized as a special situation. Designations will be developed as necessary to reduce as much as possible any negative environmental impacts or effects.

A sensitive area is identified by the use of the SEPA environmental checklist and a sensitivity checklist prepared for individual oil and gas leases. If either of these checklists results in a positive sensitive area declaration, a sensitive area analysis will be made for the individual project. This will begin with a written sensitive area environment evaluation review. This assessment may be reviewed by technical specialists. Public hearings may also be used to gather additional information.

Resolution of conflicts may be facilitated by discussions between the parties involved and in some instances proposed operations may be modified to reduce or eliminate the sensitivity.

As specific oil and gas activities are proposed the sensitive area designation process will be initiated on a site-specific basis.

When effective, sensitive area planning will resolve many conflicts and avoid unnecessary environmental impact analyses.

Table 3 Basic Selected Sensitive Area Criteria Factors
Listed by Environmental Elements

EARTH	ANIMALS
Unstable soils that pose significant erosion potential	Significant wildlife wintering area
Areas prone to movement: slides, slumps, etc.	Significant fisheries impact
"Thin" soil cover	Rare and endangered species
Cumulative effects of leasing activities	Unique island ecology
AIR	LAND USE
Toxic fumes	Significant public demand for use other than multiple use management
High visibility areas	Conflicts with county or city comprehensive plan or zoning
WATER	Conversion to other use
Shorelines of Statewide Significance, and shorelines of the state	Located within city limits
Industrial or domestic watersheds	Presence of a Natural Area Preserve
Ground-water dependency	Distance from concentration of human activity (park, housing, highway, etc.)
Stream Types 1, 2 and 3	Marine biological preserve (RCW 28B.20.320)
Cumulative effects of leasing activities	Size of adjacent ownership tracts
PLANTS	NATURAL RESOURCES
Reclamation problems (harsh site)	Extensive mineral extraction
Unique island ecology	Extensive hydrocarbon extraction
Rare and endangered plants	AESTHETICS
Cumulative effects of leasing activities	Significant visual impacts
	Significant duration of visual impacts

Table 3 Continued

LAND MANAGEMENT

Transition of land use in area from natural resource management to more intensive human use

Degree to which the use proposal differs from previous management activities

Character of adjacent development

Value similarity between department and others with an interest in the area

Level of concern by major interest groups

Demand for exclusive use by interested groups

Degree of local community concern

Degree to which a proposal is of regional or statewide concern

Cumulative effects of leasing activities

TRANSPORTATION/CIRCULATION

Routing of exploration and production equipment

RECREATION

Significant previous recreational use of a site

Adjacent or nearby park or recreational area

Operation will result in extensive increase in motorized recreational use

Land-locked parcel within a park

ARCHAEOLOGICAL/HISTORICAL

Impact on a specific cultural resource including native American religious sites

HERITAGE PROTECTION

The Oil and Gas Leasing Program for state-owned lands must consider protecting their special features. Endangered, threatened and sensitive species of plants and animals, and cultural resources such as archaeological or historic sites are such features.

Endangered, Threatened and Sensitive Species

Based on designation by the Washington Natural Heritage Program and the Washington Department of Game Nongame Program, rare plant and animal species are assigned to one of three categories:

1. **Endangered:** A vascular plant or wildlife species in danger of becoming extinct or extirpated in Washington within the near future if factors contributing to its decline continue. Populations have typically been reduced to critically low levels, or the habitat has been significantly degraded or depleted. (Extinction means the species is gone throughout its range; extirpated means it is gone from part of its range.)
2. **Threatened:** A vascular plant or wildlife species likely to become endangered in Washington within the near future if factors continue that contribute to its population decline or to habitat degradation or loss.
3. **Sensitive:** (a) A vascular plant species with small populations or localized distribution, that is not now endangered or threatened, but whose populations and habitats may be jeopardized if current conditions continue. (b) A wildlife species of

concern because of its uniqueness, rarity, scientific value or vulnerability to human disturbance or land-management activities.

There are 245 vascular plants listed by the Natural Heritage Program as endangered, threatened, sensitive or possibly extinct or extirpated in Washington. Of these, 11 are considered endangered, 40 threatened and 179 sensitive. A listing of vascular plants of concern can be found in the Natural Heritage Program publication Endangered, Threatened and Sensitive Plants of Washington (DNR, 1984b).

The Department of Game Policy List (Department of Game Policy Manual, WFL-pol-.602) includes 28 species considered endangered or threatened.

The Department of Game Nongame Program and the Department of Natural Resources Natural Heritage Program have developed a Natural Heritage data system. This system contains site-specific information on each known example of the state's natural heritage resources, as well as the most recent scientific literature, lists of information sources for the state and information about land-management agencies.

The system interfaces with the department's data system, TRAX. The department uses TRAX to identify areas with sensitive species.

The Natural Heritage Program will be instrumental in implementing the department's policy to:

Avoid impacts on plant and animal species considered endangered. Within trust obligations, avoid impacts on species considered threatened and consider avoiding or lessening impacts on species considered sensitive.

The objectives of the department's policy are to:

1. Identify those elements most in need of preservation on state lands,
2. Identify sites that contain these elements, and
3. Acquire these sites as Natural Area Preserves or designate them as in need of recognition and special management considerations.

The department and the Department of Game continuously inventory state lands for special plants, animals and plant communities. The inventory process is also aided by interested people outside state agencies. Once a species or site is identified, pertinent information is entered in a data file.

NATURAL AREA PRESERVES AND THE REGISTRY PROGRAM

It is department policy to preserve plant and animal species diversity by designating parcels of land under the Registry Program and in Natural Area Preserves.

Sites exhibiting characteristics identified in the State of Washington Natural Heritage Plan (DNR, 1983c) discovered during the sensitive area designation process will be reported to the Natural Heritage Program. Permits and leases for oil and gas exploration and development on these sites will contain conditions and restrictions recommended by the Natural Heritage Program to protect the species or habitat of concern if necessary.

CULTURAL RESOURCES

It is the policy of the Department to reduce impacts on sites with important cultural values. A cultural resource is a significant archaeological or historical site. It includes sites, structures and objects significant to Native American cultures, American or Washington history, architecture, archaeology or culture.

These sites and objects are protected by federal and state law, including the National Historic Preservation Act (P.L. 89-665 as amended), the Federal Archaeological and Historic Preservation Act of 1974 (P.L. 93-291) and the State Archaeology and Historic Preservation Act (Chapter 27.34 RCW).

The Office of Archaeology and Historic Preservation (OAHP) maintains a register of archaeological sites. Locating and evaluating sites are ongoing processes. As new sites are discovered, the register is updated and the new information is entered in the department's TRAX system.

Early in the oil and gas leasing process, checks are made for known cultural resources by searching the department's TRAX data file. If a cultural resource is indicated for the section in question, the department corresponds with OAHP to determine suggested or required permit or lease restrictions. Any restrictions are then considered in the Plan of Operation for that permit or lease.

PRELIMINARY INVESTIGATIONS

During development of this program preliminary investigative activities were examined. The department could, through policies and regulations, restrict, prohibit or modify such actions on a program level.

For department-managed uplands the department will rely on detailed site-specific Plans of Operations, the environmental checklist and the Right of Entry permit process to identify areas which may be impacted by investigative activities. Restrictions and conditions will be developed in cooperation with the operator on a case-by-case basis.

However, the department considers all water and wetland areas to be areas of concern. The department will prohibit seismic exploration and exploratory drilling within a minimum of 200 feet of any Type 1, 2, 3 or 4 waters and wetlands of the state. Other investigative activities proposed for water and wetland areas will be conditioned or denied on a site-specific basis.

PLAN OF OPERATIONS AND RIGHT OF ENTRY

The Plan of Operations is required as part of the Right of Entry permit application. A description of the area, type and duration of expected activities is included in the Plan. An environmental checklist must be completed and mitigating measures to reduce adverse impacts described when oil and gas activities are proposed. Approval of the Plan of Operations by the department is requisite to granting a Right of Entry permit. Investigative activities must follow the approved Plan of Operations.

Prior to commencement of any operations on lands where surface rights have been relinquished by the state, the lessee

shall: (1) secure consent or a waiver from the surface right owner, or (2) provide full payment for damages, or (3) provide surety, or (4) institute action in Superior Court of the county in which the land is located (RCW 79.14.040). Damage to the surface rights of the owner shall be compensated for in accordance with WAC 332-12-300.

The department shall require proof of notification of intent or proof of agreement with the surface right holder regarding entry and/or damages by the lessee when the lessee indicates intent to conduct surface operations on the lease premises. (WAC 332-12-300.)

As investigation progresses, proposed changes in the original Plan of Operations must be submitted to and approved by the department before their implementation.

A Right of Entry permit is required for any activity on department-managed land unless a lease has already been obtained. The operator must also contact the appropriate department Area office prior to actual entry on the land.

All roads constructed for use in conducting surveys, examinations, exploration drilling, development and production activities shall be in accordance with Road and Construction Maintenance Standards as set forth in Chapter 222.24 WAC.

INVESTIGATIVE ACTIVITIES

Aerial Photography and photogeologic interpretation may be used to examine geologic, topographic and vegetative patterns that could indicate oil and gas producing formations. This activity occurs early in the process, before the department becomes involved.

Geologic Mapping is normally conducted on foot from existing trails and roads. In remote areas the operation may be supported by pack animals, helicopters or boat. Maps are drawn of geologic features from on-the-ground observations. Areas to be mapped, transportation methods and timing must be described in the Plan of Operations. A Right of Entry permit is required.

Magnetic Surveys are normally conducted from the air. Since no on-the-ground activity occurs, the department imposes no regulations or restrictions.

Gravity Surveys are conducted from aircraft and ground vehicles using existing roads and trails. Surveys done from aircraft are supported by measurements on the ground. Areas to be surveyed, methods, survey stations and timing are described in the Plan of Operations. A Right of Entry permit is required.

Magnetotelluric Exploration and Time-Domain Electromagnetic Soundings normally use existing roads and trails. These surveys cause slight surface disturbances. Location of survey sites, methods and timing of surveys are described in the Plan of Operations. A Right of Entry permit is required.

Geochemical Sampling requires collection of small samples of soil, rock or water using small scoops or soil augers. This may be done along existing roads and trails or on foot. Areas to be surveyed and timing of surveys are described

in the Plan of Operations. A Right of Entry permit is required.

Vibratory (or Thumper) Seismic Surveys normally use existing roads and trails. Area, method and timing of surveys are described in the Plan of Operations. Vibratory surveys are prohibited within 200 feet of Type 1, 2, 3 or 4 waters and wetlands. A Right of Entry permit is required.

Explosive Seismic Surveys normally use existing trails and roads. In remote areas new trail or road construction may be required. Location, methods and timing of surveys must be described in the Plan of Operations. These surveys are prohibited within a minimum of 200 feet of Type 1, 2, 3 or 4 waters and wetlands. The drilling of the shot-hole (normally less than 200 feet deep) requires a permit from the Oil and Gas Conservation Committee and payment of a fee (RCW 78.52.120 and WAC 344-12-050). An environmental checklist is part of the permit application. A Right of Entry permit is required.

Seismic surveys on department-managed lands leased to the Department of Game must be coordinated with the appropriate Department of Game manager prior to issuance of a permit. The department will follow procedures described in the Memorandum of Understanding and Supplement between the Department of Game and the Department of Natural Resources concerning Right of Entry permits.

OIL AND GAS LEASING PROCEDURE

The department's Oil and Gas Leasing Program is applicant-oriented. The department does not routinely propose tracts for lease unless an application for lease for other tracts within the area has been made. The department may offer tracts that have been overlooked by applicants. If no bonus bid is received for department-initiated applications for lease, the application will be rejected.

Any person may submit an application to lease (WAC 332-12-240). The Commissioner of Public Lands may reject any or all applications for lease when determined to be in the best interest of the state (WAC 332-12-270).

The oil and gas leasing program is strictly controlled by statute. Throughout this discussion RCW and WAC references will be noted and some statutes will be summarized.

A flow chart of the oil and gas leasing and permitting process and their relationship is shown in Table 4.

PREAUCTION ACTIVITIES

All applications for oil and gas leases are made on a department form and must be accompanied by an application fee (currently \$25).

When an application is received, the department begins its review of the area. A land record check is conducted to determine if the land is available for lease and to determine if there are any encumbrances (e.g., surface rights archaeological/historical sites, endangered plant or animal species, parks, etc.) The site is inspected to identify areas of concern and a SEPA checklist is completed. A Shoreline Management Consistency Determination is completed for those lands which

fall within Shoreline Management Act jurisdiction. Lease terms and conditions are recommended. A sample Oil and Gas Lease Inspection Report is in Appendix B.

Lands Division personnel in Olympia review the Area's lease inspection report and the recommended terms and conditions. SEPA determination is made and the decision is made to lease or withhold part or all of the land covered by the application.

Notification of impending oil and gas leasing will be provided to surface owners of record upon acceptance of oil and gas lease applications in the following situations:

- Severed mineral rights (surface rights have been relinquished by the state) and
- Surface leased by other public agencies.

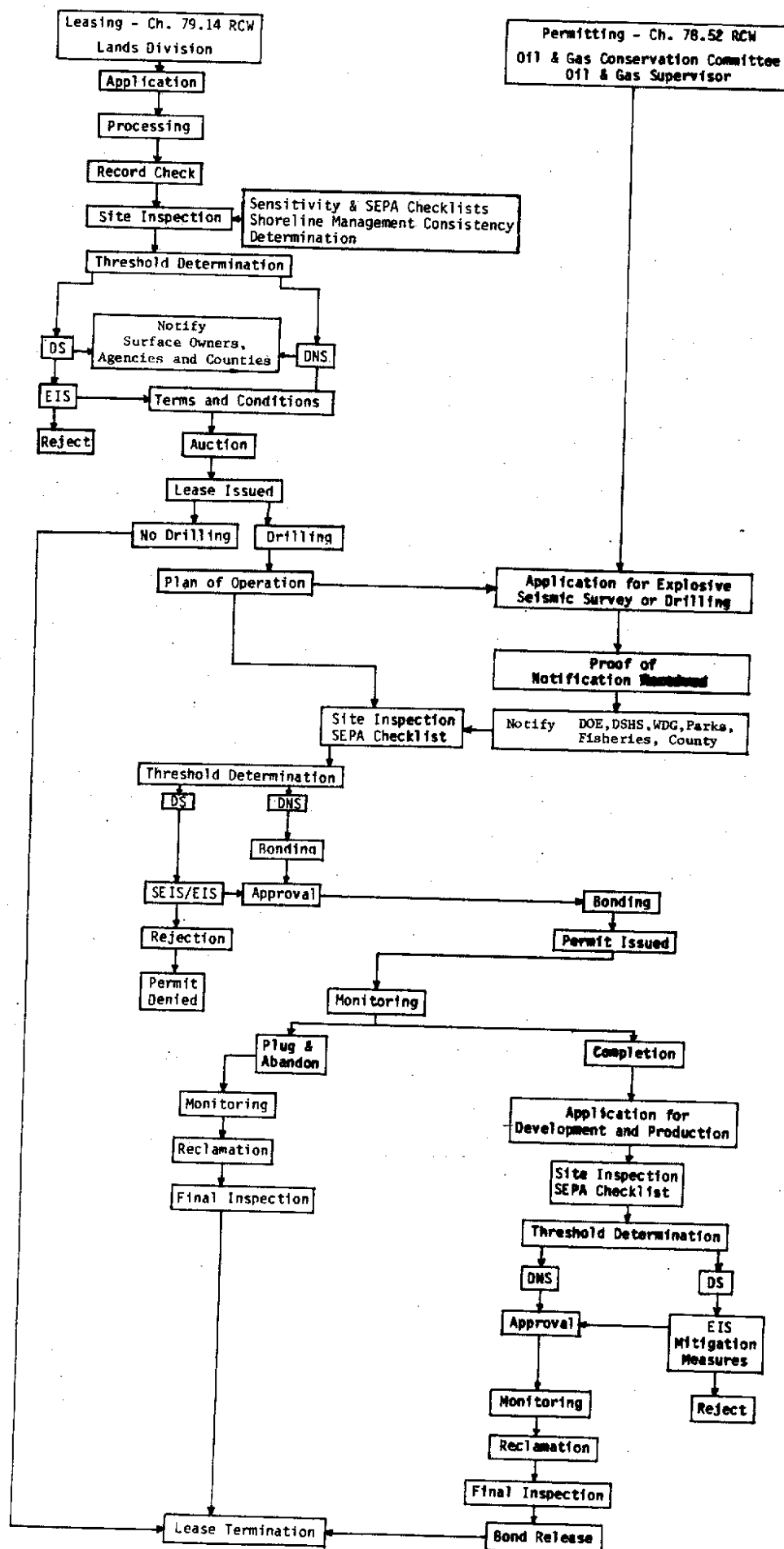
A notice of lease offering is prepared listing each proposed lease. The notice contains lease terms and conditions and encumbrances specific to each lease. The notice is mailed to each applicant, other agencies and all persons indicating an interest.

The notice is also published in a newspaper of general circulation for a minimum of thirty days prior to the auction in Thurston County and in such other manner as the department may authorize. (WAC 332-12-270.)

AUCTION PROCEDURES

Oil and gas leases are awarded at public auction. Auction schedules are determined by the number of applications but are generally not scheduled at less than six-month intervals.

TABLE 4 FLOW CHART OF LEASE AND PERMIT PROCESSING RELATIONSHIP



Applications received less than 120 days before a scheduled auction are held for the next auction.

The Commissioner of Public Lands may reject any or all bids for an oil and gas lease if determined to be in the best interest of the state. (WAC 332-12-270.)

LEASES

Leases are issued on forms prepared by the department. The lessee is required to submit a Plan of Operations prior to conducting drilling operations on the premises (WAC 332-12-360). Compliance with the provisions of the Oil and Gas Conservation Act (Chapter 78.52 RCW) is mandatory.

The department reserves the right to lease any subsurface resource not covered by an oil and gas lease. Such leasing is subject to any existing lease rights. (WAC 332-12-290.)

Prior to commencement of any operations on lands where surface rights have been relinquished by the state, the lessee shall: (1) secure consent or a waiver from the surface right owner, or (2) provide full payment for damages, or (3) provide surety, or (4) institute action in Superior Court of the county in which the land is located (RCW 79.14.040). Damage to the surface rights of the owner shall be compensated for in accordance with WAC 332-12-300.

The department shall require proof of notification of intent or proof of agreement with the surface right holder regarding entry and/or damages by the lessee when the lessee indicates intent to conduct surface operations on the lease premises. (WAC 332-12-300.)

Any applicant for a lease contesting an order or decision of the Commissioner

of Public Lands may appeal to the Superior Court of the county in which the lands covered by the application are situated. (RCW 79.01.500.)

Lease Terms and Conditions

Oil and gas leases are issued for an initial term of five years provided the lessee pays the rental fee and complies with the terms and conditions of the lease. The lease term may be extended to a maximum of 20 years including the initial five years if the conditions of WAC 332-12-390 are met. These conditions are:

1. The lessee has and is complying with all rules and regulations and the terms and conditions of the lease; and
2. The lessee shall be producing oil and/or gas in continuous paying quantities; or
3. The lessee shall be engaged in drilling, deepening, repairing or redrilling any production well without a 90-day cessation of operation; or
4. The lessee shall be actively exploring with due diligence in which one string of tools is in operation on the lease premises or premises included in an approved drilling unit with less than 90 days between the completion of one well and the start of the next; or
5. The lessee is, in the opinion of the department, proceeding and actively pursuing development to efficiently extract oil and/or gas after discovery.

Leases on tracts subject to significant environmental impacts may contain prohibitions against entry, drilling or other

activities. Tracts with such prohibitions may include parks, wildlife refuges, municipal watersheds, residential areas etc.

During the course of a lease, any activities which might result in significant environmental impacts will require completion of the SEPA checklist process by the operator and/or lessee. A Determination of Significance or Nonsignificance will be made in accordance with SEPA. If a Determination of Significance is made, an SEIS or EIS will be prepared by the lessee prior to a decision by the department for the activity.

The lessee is required to obtain the necessary permits from the Oil and Gas Supervisor in accordance with WAC 344-12-050. The Lands Division will furnish a Determination of Significance or Nonsignificance and evaluation to the Oil and Gas Supervisor for consideration along with the Plan of Operation submitted by the operator.

Prior to initiating any activities the lessee shall post a bond to guarantee performance with the terms and conditions of the lease. The department may increase or reduce the amount of the bond as a result of operational changes. (WAC 332-12-350.)

Lease Administration

Interagency coordination in the oil and gas drilling permit process will be accomplished as provided for in the Oil and Gas Conservation Act (WAC 344-12-050(5)). The Oil and Gas Supervisor will coordinate monitoring inspections with other agencies with jurisdiction during the time permitted activities occur.

All activities contemplated or undertaken on lease premises must be in accordance with the approved Plan of Operations, the terms of the lease and shall conform to applicable laws, rules and regulations which may regulate the premises and the operations thereon.

As activities permitted under the terms of the lease and the Plan of Operations occur, they will be monitored by the department. Failure to comply with terms of the lease or the Plan of Operations shall result in cancellation of the lease.

DRILLING

Stratigraphic Test Drilling normally uses small (less than one acre) drill pads and existing trails and roads. The drillsite is frequently located along an existing trail or road. Holes are drilled less than 2,000 feet to obtain geologic information on the different strata penetrated.

A Plan of Operations which includes location, method, equipment, timing of activity, contingency plans for spills and Department of Ecology-approved plans for disposal of drilling fluids and solid wastes is required.

A permit from the Oil and Gas Conservation Committee and payment of a fee is also required (RCW 78.150.120 and WAC 344-12-050). An environmental checklist is part of the permit application. If a Determination of Significance is made, an EIS or SEIS will be required. A lease is required before stratigraphic drilling begins.

Exploratory Drilling requires an access road and drill pad construction (typically, 2 to 4 acres). Shop and office facilities and fuel and water storage tanks may be erected nearby. Drilling and testing a well may require more than a year to complete.

A Plan of Operations which includes location, method, equipment, timing of activity, contingency plans for spills and Department of Ecology-approved plans for disposal of drilling fluids and solid wastes is required.

A permit from the Oil and Gas Conservation Committee and payment of fees is required (RCW 78.52.120 and WAC 344-12-050). An environmental checklist is part of the permit application. If a Determination of Significance is made, an SEIS or EIS will be required. A lease is required prior to commencement of exploratory drilling.

DEVELOPMENT AND PRODUCTION

Development and production activities may have a potential for significant environmental impact. The lessee must apply for appropriate permits

(WAC 344-12-050), submit an environmental checklist and a Plan of Operations (WAC 332-12-280). An updated Oil and Gas Lease Inspection Report will be prepared. If a Determination of Significance is made, an SEIS or EIS will be required. Directional drilling from adjoining tracts may be allowed subject to Chapter 78.52 RCW and WAC 344-12-078.

RECLAMATION

Upon termination of all activities the lessee shall remove all equipment, structures and facilities unless otherwise approved by the department and the Oil and Gas Supervisor (WAC 344-12-145). Revegetation of all disturbed areas shall follow the approved Plan of Operations.

Reclamation of the land is a mandatory requirement of each lease (WAC 332-12-480). Termination of the lease and release of the surety is contingent upon acceptance of the reclamation by the department and compliance with the terms and conditions of the lease (WAC 332-12-380).

Upon completion of permitted activities and before lease termination, a final inspection will be made of the property to insure reclamation procedures have been followed according to the terms of the lease.